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SUBJECT: SRI LANKA: TOURISM INDUSTRY PINS HOPE ON NEW TOURISM ACT

REF: 05 COLOMBO 1898

COLOMBO 00001313 001.2 OF 002

¶1. Summary: On October 1, following a two year delay, the government will implement the Tourism Act of 2005. The law provides for greater private sector participation in government-controlled tourism regulatory, promotion and training agencies. More importantly, the private sector will now have a direct role in the use of funds collected for promotion and marketing. Tourism sector sources hail the decision to implement the law as a positive step to develop the industry. End Summary

Tourism Act to Finally Boost Sector

¶2. Sri Lanka's tourist industry is private-sector driven, with hotels, travel agencies, and airline offices privately owned. Nevertheless, the government historically played a crucial role through its control of the state-owned Sri Lanka Tourist Board (STB), the main tourism regulatory and promotion body. This arrangement gave the Tourist Board and Tourism Minister control of tourism-related tax collections intended to be spent on promoting the sector as a whole. The Board and various ministers, however, were frequently accused of utilizing these funds ineffectively, or even corruptly. The Tourism Act of 2005 was intended to remedy this situation by ensuring greater accountability in the use of tourism tax collections. Despite passage of the act in 2005, the Government resisted giving up control even in the face of repeated requests from the private sector. Milinda Moragoda's appointment as Minister of Tourism in February 2007 finally brought in a minister committed to implementing the act -- it will become effective on October 1. (Note: Moragoda previously served as Minister of Economic Reforms in the 2001-2004 United National Party government.)

Private Sector Will Lead New Agencies

¶3. The implementation of the Tourism Act of 2005 creates three new agencies to replace the current government-controlled Sri Lanka Tourist Board. The new institutions are the Sri Lanka Tourism Development Authority (SLTA), the Sri Lanka Tourism Promotion Bureau (SLTPB) and the Sri Lanka Institute of Tourism and Hotel Management (SLITHM). SLTA will steer tourism policy, regulate the industry,

look at ways to improve tourism infrastructure, and administer a Tourism Development Fund using embarkation fees collected at the airport. SLTPB and SLITHM will oversee promotion and training, respectively. Private sector firms have strong representation on the management boards of the new agencies and will play a large role in determining both the planning and use of funds.

¶4. A major advantage of the new Act is that seventy percent of the Tourism Development Fund budget will be given to the new private-sector led Tourism Promotion Bureau for promotions and marketing. Industry reps hope that targeted promotions and marketing, orchestrated by industry leaders, will help to revive the currently depressed sector. Prema Cooray, Secretary General of the Ceylon Chamber of Commerce and a key tourism industry figure, will head the new Tourism Promotion Bureau. According to Cooray, the city of Colombo, beach resorts, hill country, and ancient cities are the four primary locations the Bureau will promote. Further, the Tourism Promotion Board will soon undertake a major promotion in five Indian cities, aimed at tourists and conference participants. The industry notes that 900,000 Indians attend conferences each year and would like Sri Lanka to attract ten percent of that market.

¶5. Another advantage to the new Act is that the Sri Lanka Institute of Tourism and Hotel Management will now manage a hospitality industry training school that was formally government-controlled. Private sector contributions to the school's management will help ensure that the industry has qualified graduates to hire.

¶6. Industry sources say these new institutions will enable the private sector to play an active role in developing tourism. According to Cooray, private-public collaboration in tourism was unsatisfactory in the past. As a result, progress in the tourism sector was hampered. He aims to redress this by ensuring that the new private-public partnerships will be effectively utilized in Sri Lanka, as they are in countries such as Singapore.

COLOMBO 00001313 002.2 OF 002

Comment: Peace and Infrastructure
Improvements Also Vital

¶7. Despite the Central Bank Governor's July comment that "the tourism industry's contribution [to GDP] is insignificant" and that the "dip in tourist arrivals is no serious issue" -- meant to assuage concern about a depressed tourism market due to the conflict -- Sri Lanka's tourism industry remains a key contributor to foreign exchange earnings. The industry estimates that as many as 900,000 Sri Lankans (of a population of 20 million) are in some way dependent on tourism. Including private industry in the management of tourism promotion should increase the country's ability to reach new travelers and to encourage former visitors to return. USAID's "Competitiveness Program" has long urged these reforms in its work with the Sri Lankan tourism sector. Nevertheless, without a peaceful solution to Sri Lanka's long ethnic conflict, we do not expect significant increases in tourism-sector revenues anytime soon. Other issues like dilapidated tourism infrastructure -- roads and rails -- will also need to be addressed for Sri Lanka to make major gains in tourism.

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